Foreign Agriculture

January 16, 1978

Foreign
Agricultural
Service
U. S. DEPARTMENT
OF AGRICULTURE

2 In Trade Negotiations: Momentous Weeks Ahead

4 Canada Studies New Grain Shipping Rates

6 Production and Exports of Argentine Oilseeds Set New Records

8 U.S.-Indonesian Agricultural Trade Continues Upswing

10 Tanzania Boosts Food Output, Cuts Imports

Picking tea on an estate in west Java, Indonesia.

In Trade Negotiations: Momentous Weeks Ahead

By Thomas R. Hughes

Progress toward liberalizing agricultural trade must be made at Geneva, stated FAS Administrator Thomas R. Hughes in remarks to a meeting of the Secretariat of the Royal Association of Grain Merchants in Rotterdam on December 16. He pointed out that the alternative to world agricultural trade liberalization is a further slide to independent restrictions on trade. Excerpts follow.

If one thing stands out in the agricultural policy actions the U.S. Administration has taken during these first 11 months, it is a willingness to break away from the past, to consider and to take new directions in seeking solutions.

That is the approach the United States has taken to the Multilateral Trade Negotiations (MTN) and to the pressure from some trading partners, including the European Community (EC), to enter into commodity agreements as the best way to solve agriculture's ills.

Secretary Bergland has said from the outset that he is willing to listen with an open mind to any proposals that might lead to the lowering of barriers to agricultural trade. Nowhere is this more evident than in the area of commodity agreements.

It was the United States that took the lead in urging the International Wheat Council (IWC) last June to explore the possibility of negotiating a new International Wheat Agreement.

We urged the Council to take the initiative in devising new forms of shared action to try to meet three broad goals for the improvement of international trade in wheat:

- To moderate price swings;
- To encourage the expansion of trade; and
- To enhance food security, especially of poor nations.

The Council decided to pursue the matter, and in September the United States presented a comprehensive proposal to the IWC Preparatory Group for a new Agreement to replace the one that expires next June 30.

Starting from that, and with give and take from the members, the Council Secretariat drafted a framework from which an agreement might be negotiated, redrafted it, and now the second draft is before an appointed IWC Drafting Group for revision.

The revised draft will be considered by the Council at a special meeting January 10 and 11, when the Council will decide whether to convene a negotiating conference.

There is general agreement among the members that a new agreement should be negotiated. As you would expect, there is disagreement on what should go into it.

The United States developed and presented a proposal for what we think is a flexible, pragmatic agreement. It is a new concept, based on the view that experience with the traditional types of agreement has shown that they simply do not work. They run aground—sooner or later—on their rigid economic provisions.

Very briefly, what we have proposed is a system incorporating a nationally held international wheat reserve and a price-related—but not fixed-price—mechanism. The mechanism would trigger agreed-upon domestic adjustments to world conditions of oversupply or undersupply by all participating countries.

Reserve stock actions would be the first line of defense as prices approached high or low price indicators, and we propose consultations for specified further actions if this fails. These could include production adjustments, adjustments in use, and changes in assigned reserves.

As the IWC Drafting Group met, there appeared to be a general consensus on objectives of a new wheat trade convention along these lines:

- To contribute as much as possible to international

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market stability for both exporters and importers;

- To assure supplies to importer members and markets to exporter members;
- To moderate price extremes;
- To promote trade expansion; and
- To encourage more international cooperation in all aspects of trade.

How to do this is another matter. The principal issue from the U.S. point of view is the EC's insistence on reviving the old, rigid maximum and minimum price structure within which trade would flow.

It seems that the experience with the Wheat Agreement of 1962 and the Grains Arrangement of 1967 should indicate the flaws in this approach. Anyone who recalls the magical changes in grain grades induced by the pricing structures of that era would agree.

The United States has departed from past policy and has endorsed price as a factor in a wheat agreement, but it will not put its grain trade into a price box. The U.S. view continues to be that an effective Wheat Agreement is needed to enhance trade and reduce the wide price swings that have disrupted world markets repeatedly since 1972. However, it will not accept an agreement that would require changing the U.S. marketing system. The United States will not accept a pricing system that would make U.S. grains less competitive in the world market.

Any wheat agreement to which we become a party will be an agreement based on a functioning market that gives producers the opportunity to compete fairly in a world market not bound within rigid price limits.

The other major IWC issue within the Community, and one that is perhaps less fundamental than the price question, is the EC's view that coverage of the Trade Convention must be extended to coarse grains, as well as wheat.

The United States argues that while there is a relationship between different grains, this is not the time to introduce another element into an already difficult process. If agreement can be achieved in wheat, we are ready and willing, as Secretary Bergland has said many times, to consider the possibilities for other grains.

There is some cause for optimism that meaningful, if perhaps modest, results for agricultural trade might come from Geneva. But it rests on maintaining the momentum that resulted last July when the path finally was cleared leading to the start of substantive negotiations next month.

Most industrial countries have tabled their requests for concessions, and the participants are working on the other schedules to be completed with the tabling of offers January 15.

A sticking point right now is the Community's position that grains, meat, and dairy products must be handled through separate Multilateral Agreements, with grain issues tied to the negotiations in the IWC.

Proposals have been made in the meat and dairy subgroups of the MTN for agreements in those commodities. In each case, the United States has indicated that it is willing to consider EC proposals but is in no way committed to entering into agreements that might emanate from the subgroups.

The list of EC requests for trade concessions from the United States in the request-offer procedure is insignificant. This reflects, in part, its insistence on separate agreements in grains, meat, and dairy, but there is also the disappointing implication that the Community has little interest in negotiations in agriculture.

I am fully aware of the Community's argument that U.S. agricultural trade with the Community is highly unbalanced in favor of the United States. The United States rejects this line of argument as highly sectorial and parochial.

If there is anything clear in international trade, it is that it functions on a multilateral basis. Overemphasis on bilateral balancing of accounts on either a sectorial or a national basis negates the benefits of trade between nations.

We reject this theory.

We are aware that the Community has come to Geneva with a limited negotiating mandate. We are aware, also, that this mandate was adopted at a time when U.S. agricultural trade policies were guided by a different Administration, with different ideas and different goals from those held by the Carter Administration.

What the EC does is central to the outcome of the MTN. Maybe the time has come for the Community to recognize that the United States accepts the EC position that the Common Agricultural Policy is crucial to the EC's future, and with that recognition to take a new look at its negotiating mandate—to view it as a positive instrument for the improvement of trade rather than as a means to defend something that no longer is under attack.

Perhaps then the way would be cleared for participating countries to negotiate trade concessions and to improve General Agreement on Tariffs and Trade (GATT) rules under which trade could move more freely and more closely in response to market conditions.

There are other, lesser, issues between us, both within and outside the MTN, as there always are between trading partners.

One that is of some concern to this group is the French request that the Commission consider the possibility of limiting manioc and other noncereal or cereal byproduct imports, primarily through voluntary restraint agreements.

The United States is opposed to this on principle as one more unwarranted restriction on trade and also as a barrier to economic development efforts of developing countries, chiefly Thailand and Indonesia, supplying manioc to the EC.

We are concerned, also, that restrictions on manioc could encourage the EC to seek ways to limit imports of other nongrain feed substitutes.

We are acutely conscious of our duty-free bindings in the Community on soybeans and soybean meal, and are sensitive to any threat to this status.

These bindings, negotiated in the Dillon Round of 1961, represent a current trade value of $2.5 billion, about two-fifths of total U.S. trade in oilseeds and oilseed products.

We have defended against repeated EC efforts to reduce the benefits of these concessions, beginning back in the days of the Mansholt Plan, and we will continue to do so.

The weeks and months ahead in Geneva and London will be momentous for agricultural trade. There is no question that existing trade mechanisms have proved ineffectual in dealing with the changing conditions of the past few years.

The rules must be changed. How they are changed will set the pattern for trade over the next 10 years and beyond.

It is our view that progress, however modest, toward liberalizing trade must be made at Geneva. The alternative is a further slide to independent restrictions on trade by nations that are growing more interdependent every day. □

Canadian Commissions' Studies May Bring New Grain-Shipping Rates

By Carol E. Bray

On the basis of information provided by two study commissions dealing with Canada's grain transportation-pricing practices, it is possible that the country's statutory grain-shipping rate may be in for changes. Legislative action may be required before the changes can be made, although it probably will be some time before the Parliament acts.

Reporting were the Commission on the Cost of Transporting Grain by Rail (the Snavely Commission) and the Grain Handling and Transportation Commission (the Hall Commission).

The Snavely Commission was particularly instructed to determine the actual expenses incurred by Canada's railroads in shipping grain at the statutory rate of about 0.5 Canadian cent per ton-mile, fixed in perpetuity since 1925. The Hall Commission was to study costs connected with the abandonment of rail branch lines.

Using 1974 as its base year, the Snavely Commission pinpointed the cost of moving grain at the statutory rate from producer to export position at about $11.39 per ton, for a total annual cost of $234.4 million. Thirty-eight percent of the per-ton cost ($4.36) was covered by revenues received from grain producers who paid the 0.5-cent rate.

The remaining $7.03 came from the Government and the railroads, with the Government paying 24 percent and the railroads covering 38 percent of the total costs.

(It is not indicated how much of the railroad's share came from revenues for moving commodities other than grain.)

Among the findings of the Hall Commission was that a direct Government subsidy, paid to the railroads under the Transportation Act of 1967 to continue operations on unprofitable branch lines, instead has been used in part to recoup losses from statutory-rate grain shipments. It is generally acknowledged that these losses are sizable and the railroads must be compensated in some manner. Under the existing system, the Commission found that grain producers in effect receive a subsidy from the Government and the railroads in the form of reduced shipping costs.

If the railroads are to be fully compensated for the cost of moving grain to export ports, the extra money must come either directly from the grain shippers in the form of higher transport payments or from the Government as a larger subsidy.

But an increase in transportation costs paid by grain producers would widen the differential between export grain selling prices and prices received by grain producers.

The Canada Grains Council (CGC) has indicated that grain producer net per-acre return would have been 10 percent less in 1974 had producers been forced to pay the full cost of transporting their grain.

Furthermore, assuming that the full cost of transportation had been directly reflected in wheat prices, the unit export value would have risen that year from $201.63 to $208.66 per ton. Had the Snavely Commission's $11.39-per-ton figure been applied to the 1976 export unit cost, the full export price would have gone from $161.82 to $168.85 per ton.

Elimination of the statutory grain rate is not a popular concept in Canada, but the final decision on changing it rests with the Canadian Parliament.

The Hall Commission has not only recommended that it be retained, but that producers not have to bear the full cost of such shipments. It further suggested that, in view of the sizable contribution to the Canadian balance of payments made by western grains, the Federal Government bear the added cost in the national interest.

In addition, the Commission suggested that the statutory rate be extended to other commodities not now covered, such as livestock. This recommendation reflects an ongoing debate in Canada that the preferential rate for grain shipments encourages sales of western-produced grains at the expense of livestock or meat produced in the same region.

Although an extension of the statutory shipping rate to Canada's livestock sector may reduce costs of meat marketing, it would, however, boost enormously the required Government transport subsidy if the railroads are to be fully compensated.

The Canada Grains Council has suggested that the gap between the statutory rate and actual railroad costs from grain shipments could be spanned by a direct Government subsidy paid to whichever segment of the economy bears the cost.

Thus, if grain producers were forced to pay the total cost of shipping grains, the difference between that rate and the statutory rate could be made up by a Government subsidy to the producers. On the other hand, if the statutory rate is kept at the present level, any loss resulting from its use would be made as a direct Government subsidy to the railroads.

Canada's present statutory shipping rate for grain resulted from the Crowsnest Pass Agreement of

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Loading grain near Winnipeg, Canada, for shipment to export silos at Thunder Bay on Lake Superior. This is the major eastern export point from which Canadian grain is shipped to Europe and other destinations.

1897 between the Canadian Government and the Canadian Pacific Railroad for the building of a rail line into the Kootenay region in southeastern British Columbia. The Provincial and Federal Governments were interested in assuring that development in the region would remain under Canadian control. Both Governments feared that a U.S. rail line built into the region in 1895 would lessen their jurisdiction.

Under the agreement, the Canadian Pacific received 1.5 million hectares of land rich in timber and minerals from British Columbia. From the Federal Government, the railroad received a subsidy of $3.4 million after the line had transferred some 20,000 hectares of the Province's land grant to the Canadian Government. As one of its concessions, the railroad agreed to reduce freight rates on grain and flour shipped from the Canadian Prairies east to what is now Thunder Bay on Lake Superior.

In 1925, the rate was fixed in perpetuity by legislative action. In addition, application of the statutory rate was extended to apply to shipments of all export grain from all points on all rail lines west of Thunder Bay.

In 1927 the coverage was further broadened to include export grain and flour shipments by rail to the port of Vancouver. Other changes added oilseeds and products to the list of Prairie commodities receiving preferred treatment and by 1977 Prince Rupert and Churchill were added to the roster of ports.

The statutory shipping rate now applies to a wide range of commodities. For example, Canada's four major export grains—wheat, oats, barley, and rye—and two major oilseeds—rapeseed and flaxseed—are shipped from the Prairie Provinces at the statutory rate. In addition, oilseed cake and meal, sunflowerseed hulls, beet pulp, bran, uncooked breakfast cereals, grits, groats, wheat germ, wheat hulls, and animal feeds also are shipped to Thunder Bay at the fixed rate, which despite rising rail shipping costs have remained fixed for the past half century.

Because the statutory grain shipping rate is so low and seemed to be fixed forever, railroads have had little incentive to invest in capital improvements necessary to sustain grain transport service at an efficient level. In fact, many directly blame the statutory rate for the deterioration in rail grain-handling methods and equipment, particularly on branch lines, whose entire operation consists of moving grain from producer to export silo.

And yet the distance involved in moving grain from Prairie production area to terminals in the east and west make rail movement a necessity. The average distance of 885 miles from producer to export position makes truck handling generally uneconomical at present relative prices.

Among past actions to strengthen the country's grain handling network, the Federal Government has spent sizable sums to make up for the railroads' limited investments in capital equipment. The Government has purchased more than 5,000 hopper cars, which although owned by the Canadian Wheat Board (CWB), are loaned to the railroads for exclusive use in grain movements. The lines maintain the cars at no expense to the Government but pay no rental or per diem to the CWB for their use.

In addition, the Government, in 1974, paid the railroads to repair boxcars for use for grain transport. This one-time program put about 2,400 boxcars back into service which, without this Government assistance, would have been abandoned, thereby reducing the size of the grain boxcar fleet.

But if the statutory rate is increased, it may have the twofold effect of enabling the railroads to improve their grain rolling stock, and at the same time enabling them to provide better service to the Prairie grain farmers. □

Production and Exports Of Argentine Oilseeds Setting New Records

By James P. Rudbeck

Improved returns and a favorable domestic economic climate are pushing Argentina's production and exports of oilseeds to record levels.

The Government has revised its policy of restricting exports to meal and oil, and with the 1977/78 crop will permit unrestricted export of all oilseeds.

Excellent growing conditions and planted area 22.5 percent larger than the previous year's 3.1 million hectares were major factors in a 37 percent jump in total oilseed output during 1977 to a record 3.9 million metric tons.

Another 20-25 percent increase in area for the 1977/78 year plus continued good weather could set the stage for a harvest about 20 percent larger than 1977's and proportionately larger production of oilseeds.

This increased production will likely be reflected in larger soybean exports, making Argentina the third largest exporter of soybeans after the United States and Brazil.

Exports of oil and meal, pointed by wheat prices may which totaled about 1.2 million tons in 1976, may reach 1.8 million tons in 1977, and soybean exports, which amounted to 78,000 tons in 1976, and estimated at 650,000 tons for 1977, the second year of authorized exports.

Producers are likely to continue their shift toward oilseeds during the 1977/78 season. Among the incentives credited with encouraging production during the 1976/77 season were fewer marketing controls, lower export taxes, more realistic exchange rates, and the promise of improved returns.

Sunflowerseed remains the most extensively sown oilseed in Argentina. In 1976/77, area was about 3 percent greater than in the previous year, even though producers in the north were forced to forego this crop because of drought conditions.

Heavy rains affected the crop adversely, and average yield declined 15 percent and production 17 percent from year-earlier levels to about 900,000 tons.

Timely rainfall in the north this year probably will cause producers in that area to sow sunflowerseed, and farmers who were disappointed switch to sunflowerseed—especially to the high-yield varieties.

Sown area for 1977/78 is forecast at 25 percent larger than the previous season's, and production could be up by 50 percent for a record crop of 1.4 million tons if weather conditions are favorable.

Soybeans have moved up to the leading position in Argentina's oilseed production. Output in 1977 was a record 1.4 million tons, up 101 percent from year-earlier levels. Planted area was increased only 60 percent over 1975/76's, but heavy rains with intermittent periods of hot, sunny days resulted in a record yield—32 percent higher than that for the previous season and 46 percent over the recent 5-year average.

Soybean plantings for the 1977/78 season are forecast at 25 percent above the previous season's and production at 18 percent higher. Yields are expected to be above average, as more soybeans are planted as a first crop instead of as a second crop to wheat, but yields are not expected to be up to the record of 1977.

Because of the limited area available, the future rate of expansion for soybeans in Argentina will depend heavily on corn-soybean price relationships. Some new areas in the north, northeast, and northwest may be brought into soybean production, but this will be a gradual process and dependent on prices. Since the early 1970's, Argentina's corn area has declined nearly 2 million hectares to 3 million hectares, while area planted to soybeans is still less than 1 million hectares.

Peanut production during 1977 reached a record 600,000 tons, 78 percent higher than in the previous season. Area was only 10 percent larger than in 1975/76, but average yield was a record 1,635 kilograms per hectare, 49 percent higher than in the previous season and 63 percent over the recent 5-year average.

Plantings could increase again in 1977/78, but yields probably will not be as large as in the previous year. Sown area is likely to be 8 percent larger than last year's, while production may be down by 25 percent from the 1977 total but still the second largest crop on record.

Cotton plantings in the 1976/77 season were 25 percent greater than in the previous year—partly because producers in the north were unable to plant sunflowerseed—and 1977/78 area is expected to be still larger. Production of cottonseed for 1978 is placed at 350,000 tons, compared with 307,600 tons this past season.

Flaxseed plantings for 1977/78 are expected to be larger than in 1976/77, partly because of weak wheat prices. Production in 1976/77 (December/January harvest) was about 617,000 tons—64 percent larger than the previous year's crop.

Oilseed production in terms of oil and meal equivalent has shown steady increases since the 1971/72 season. Output during 1976/77 was up 29 percent in oil equivalent and 50 percent meal equivalent.

In oil equivalent, the surplus over average domestic consumption (144,000 tons for the 1971/72 season) leaped to 591,000 tons for the 1976/77 season.

In meal equivalent, the increase was even more spectacular—from 459,000 tons to 1,907,000 tons by the 1976/77 season. Although the traditional assumptions for allocating seeds for crushing and in-

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dividual oils for domestic consumption are somewhat changed, the oil equivalent of the 1978 oilseed crop could increase a further 20-25 percent and the meal equivalent slightly less.

Edible oil production for 1978 is projected to rise about 7 percent, compared with a gain of 24 percent for 1977 and 21 percent for 1976, as a large portion of the increased oilseed production is expected to be exported directly as seed in 1978.

For total oils, the 1978 projections is for a 5 percent increase, compared with a 32 percent gain for 1977 and a 16 percent increase for 1976. For meals, the projected 1978 increase in production is less than 1 percent, compared with 38 percent for 1977 and 5 percent for 1976.

Total oil exports for 1977 are expected to be about 486,000 tons, compared with 279,000 tons exported in 1976 and 132,800 tons in 1975. The big increases for 1977 are expected to be for sunflowerseed oil (up 163 percent), peanut oil (up 166 percent) and linseed oil (up 68 percent).

Sunflowerseed oil exports were suspended during 1977 by the Grain Board to provide adequate supplies for the domestic market, and exporters are permitted to substitute soybean oil against export sales declarations.

For 1978, no significant change in the level of oil exports is expected, as the increased production is expected to be exported as seed.

Exports of meal during 1977 are estimated at 1.3 million tons, compared with 891,700 tons in 1976 and 674,000 tons in 1975. No change is indicated for 1978 meal exports.

Estimated 1977 soybean exports of 650,000 tons are based on a 600,000-ton quota plus a carryover.

Argentina may become a significant exporter of oilseeds during 1978. Soybean exports are projected at 1 million tons, ranking third behind the United States (with a projected 16.5 million tons) and Brazil (projected 3.2 million tons). The Argentine volume could be even larger than expected if the world price is higher than the domestic price and if production is larger than now projected.

Sunflowerseed will be subject to a 10-percent export retention tax, as opposed to no tax against soybeans. Sunflowerseed is not an efficient seed to ship because of the large husk content.

Peanut exports, except for human consumption, also will be subject to a 10-percent export retention tax in 1978, but some exports are likely, with volume depending upon market factors. □

Thailand's Corn Exports Cut

Thailand's 1977/78 corn production has been reduced by drought and subsequent flooding from a targeted 2.7 million metric tons to about 1.8 million.

Domestic demand remains strong, with annual usage about 1 million tons.

Export availability during the 1977/78 marketing year is estimated at 800,000-850,000 tons, compared with export levels of 2.3 million tons in 1975/76 and 2 million tons in 1976/77.

The Thai Board of Trade negotiated a reduction of 50 percent in export commitments to Japan and to Taiwan, raising the possibility of an increased share in these markets for U.S. exporters. □

U.S.-Indonesian Agricultural Trade Continues on Upswing

Total agricultural trade between the United States and Indonesia, rising in recent years, is expected to show another increase for 1977, but probably not as great as 1976's. That year, the two-way trade jumped 66 percent to $640 million.

Indonesia's major farm imports are rice, wheat, and cotton—commodities that topped the list of U.S. agricultural exports to its distant trading partner. In 1976, the United States supplied Indonesia with 69 percent of its cotton imports, 38 percent of wheat imports, and 35 percent of that country's large rice imports.

"Indonesians like the quality of U.S. agricultural products, that is, our wheat, rice, and cotton," observed Verle E. Lanier, former U.S. Agricultural Attaché to Indonesia, during an interview with *Foreign Agriculture*.

Lanier, who spent 4 years in Indonesia, said that Asian nation "has made remarkable progress in its economy, particularly in agricultural production and trade."

About three times the size of Texas, Indonesia is a vast archipelago straddling the equator, and with a population of about 135 million, it is the fifth most populous country in the world.

By Aubrey C. Robinson, staff writer, Foreign Agriculture.

"Although having an annual population growth of about 2.3 percent, Indonesia has increased agricultural production about an average of 5 percent a year. There was a setback in 1976 because of unfavorable weather . . . in that part of the world, weather has a very significant effect on agricultural output," Lanier said.

"Agriculture is the dominant sector in the Indonesian economy, accounting for about 40 percent of the national income and employing about 50 percent of the labor force. Also, nearly one-fourth of annual Government expenditures are devoted to agriculture."

Indonesia has impressively reduced inflation to 14.2 percent in 1976, down from 19.7 percent in 1975 and 33 percent in 1974. In addition, the country has a healthy foreign exchange reserve, standing at more than $1.2 billion in 1976, compared with about $38 million in 1968. Agriculture provides about 25 percent of both the country's export and import earnings.

"Despite problems of weather, land availability, and population, Indonesia is making good progress, but much more has to be done. When people, especially foreign traders, look at the Indonesian market, they first think of Indonesia as being a rich country. While rich in natural resources, notably petroleum and various mineral deposits, Indonesia is still a developing country.

"Petroleum export earnings certainly contribute to Government revenue, but the per capita income is only about $150 a year—the lowest in that part of the world. This means much more emphasis must be placed on getting assistance and greater purchasing power to rural areas," Lanier said.

Indonesia enjoyed a total trade surplus in 1976 of $3.2 billion, with exports up 11 percent to $7.5 billion and imports down 9.7 percent to $4.3 billion. Its agricultural balance of trade read: Exports, including forest products, up 42 percent to $1.89 billion; imports, down 1.5 percent to $1.08 billion. This produced a $814-million surplus.

Forest-product sales constituted 39.7 percent of the overall increase in agricultural exports. Other major commodities registering gains were rubber, coffee, tea, pepper, copra and copra cakes, hides, and spices, while exports of palm oil and palm kernels declined. Composition of Indonesian farm imports reflected an upward shift in rice, wheat, and sugar. The share of food imports rose to 74.4 percent, compared with 46.8 in 1975. Cotton and other fiber imports increased to 24.4 percent of the total, up from 20.2 percent a year earlier.

U.S. agricultural trade with Indonesia has been gaining since 1974. Largely because of U.S. rubber imports and rising prices of other Indonesian products, such as coffee, tea, and pepper, the 1976 trade balance again favored Indonesia as its farm trade surplus with the United States expanded to $172 million from $150 million in 1975.

The United States imported $406 million worth of Indonesian farm products in 1976, up from $268 million a year earlier. "Our primary imports included coffee, pepper, tea, tobacco, palm oil, and, of course, rubber," Lanier pointed out. Rubber imports alone amounted to $238 million, more than offsetting all of the U.S. agricultural exports to Indonesia—in fact, rubber and coffee ($105 million) represented about 85 percent of total U.S. farm imports from Indonesia.

"A large portion of the increased U.S. imports reflects higher commodity prices," Lanier explained. Coffee prices doubled, while rubber prices jumped 20 percent and pepper prices rose 22 percent. Palm oil prices, however, fell sharply in 1976. "U.S. palm oil imports from Indonesia were down to about 13,000 tons valued at $4.5 million from 30,000 tons worth almost $15 million in 1975. The United States, by the way, is the leading buyer of Indonesian pepper. In 1976, Indonesia exported 29,000 tons, with 13,000 going to the United States."

On the export side, U.S. agricultural exports to Indonesia reached $234 million in 1976, up from $118 million the previous year. "Our leading farm commodities to Indonesia were wheat—which is steadily increasing—cotton, rice, some tobacco, and more recently fresh fruit. We exported $1.3 million of grapes and $1 million of apples to Indonesia in 1976."

Indonesia, normally a net soybean exporter, had to import nearly $18 million of U.S. soybeans in 1976 to cover a crop shortfall due to poor weather.

"Also, there are indications of changes in Indonesians' eating preferences. Although the country produced a record rice crop of 15.4 million tons in 1976, many people are now eating bread instead of rice . . . that is why wheat imports are increasing. Since Indonesia does not produce wheat, all of its wheat has to be imported. Indonesia imported over 900,000 tons of wheat in 1976 and over 825,000 in 1975. Last year, Indonesia was expected to import about 1 million tons of wheat. Of that, approximately 350,000-400,000 tons would come from the United States.

"And unlike exports of rice, there are not that many competitors for wheat sales to Indonesia. Our principal competitors are Australia, which is closer to Indonesia, and Canada. So I think we certainly have a good position on wheat opportunities there.

"Western Wheat Associates, a USDA foreign market development cooperator, has done a creditable job in improving flour products in Indonesia. Its work has resulted in increased utilization of flour especially in bread-making. Western Wheat primarily has provided baking technicians and biscuit consultants as well as sending Indonesian bakers to its training facility in Manila. Presently, a baking school is being established in Indonesia to train more local bakers.

"However, despite the trend toward more wheat usage, one cannot discuss Indonesia without talking about rice. Indonesia had a 1976 rice production target of 16 million tons, but fell slightly short because of pest problems and unfavorable weather, mainly a persistent drought.

"To meet demand, Indonesia had to import and wound up taking more than 1 million tons, thus, making it the world's leading rice importer," Lanier said.

Imports of U.S. rice reached a new high of 392,000 tons in 1976, up from only 57,000 in 1975. "These rice sales were under the P.L. 480, Title I program. In fact, Indonesia has not purchased commercial rice from the United States in recent years, because of the availability and lower freight rates from nearby countries.

"The United States faces much stronger competition in rice exports to Indonesia. For the past 2 years, there have been ample supplies

available from Thailand and Burma. Indonesia also imports rice from North Korea and the People's Republic of China. All of these countries have the advantage of far less freight cost."

While U.S. rice sales to Indonesia last year again depended on the level of P.L. 480 funds, Lanier said, exports should exceed those of 1976.

U.S. cotton exports to Indonesia also rose in calendar 1976 to about 240,000 bales (480 lb net) of the total 350,000 bales imported. In 1975, U.S. cotton sales to Indonesia totaled 185,000 bales.

"Previously, U.S. cotton was provided under P.L. 480, but Indonesia now prefers to use those funds for rice and wheat imports. U.S. cotton sales have been made on a commercial basis with Commodity Credit Corporation (CCC) export credit financing. Indonesia hopes this arrangement will continue. If prices are favorable, Indonesia is expected to continue buying U.S. cotton, and sales last year were probably about the same or slightly lower than those of 1976," said Lanier.

Indonesian palm oil production continues to expand, rising from 411,000 tons in 1973 to about 434,000 tons in 1976 as planted area increased to 177,882 hectares from 143,208. The 1976 output of palm kernels increased 8 percent from the previous year to 90,000 tons.

"Indonesia's palm oil production goal is 1 million tons by 1989. Next to Malaysia, Indonesia is the world's second leading palm oil producer. On the export side, there has not been a substantial increase, largely because Indonesia must keep some palm oil for domestic consumption. Coconut oil has been the preferred cooking oil in Indonesia, but now it is in short supply, so there is a trend toward substituting palm oil," Lanier said.

Still, the bottom line of Indonesia agriculture—and its economy—reflects impressive strides in recent years. "Today, purchasing power is greater, especially in the larger cities. Per capita income is bound to improve above current levels and per capita consumption already has increased sharply. For example, per capita wheat consumption alone, has risen from 4.8 kilograms in 1971/72 to 8.2 in 1976/77, although this is far below the U.S. per capita consumption of 49 kilograms.

"To meet the food needs of its expanding population, Indonesia is intensifying its agricultural production and trying to bring additional land into production. More technology will be applied to agriculture in the future."

In response to population pressures, Indonesia is attempting to transmigrate people from the densely populated island of Java to other outlying islands. "This program has had its ups and downs because it is difficult to uproot people. As more people move into rural areas, agricultural production should increase. But the farming infrastructure has to be there," Lanier said.

Regardless of recent achievements, Indonesia still has "tough sledding ahead." Despite increased agricultural production Indonesia will have to continue importing in order to feed its mounting population. "The United States has to work harder to maintain its market in Indonesia," Lanier warned. Competition in that market is keen and involves many variables, such as availability of supplies, prices, and distances, as the U.S. pipeline to that market must span thousands of miles. □

From top: Buffalo-drawn harrow prepares rice paddy; tea pickers waiting to weigh bundles; coffee plant in Sumatra.

Tanzania Boosts Food Output, Cuts Imports

By Lawrence A. Witucki

In the 3 years since droughts tumbled Tanzania's harvests to disastrous lows, that country has pushed production of food crops and, since 1974/75, has markedly reduced imports of U.S. agricultural commodities. Although the country has a number of plans to boost food output further, it is likely that their fulfillment will take considerable time, and Tanzania will require imports for some years to come.

In 1975, the United States was second after the United Kingdom as a supplier of Tanzania's agricultural and industrial imports. In 1976, the United States had fallen to sixth place. But in both years, the United States was the No. 1 supplier of Tanzania's imports of cereals and cereal preparations.

In fiscal 1975, the United States exported $51 million worth of agricultural commodities to the African country, $17.8 million under Government-financed programs, and $33.2 million commercially. The following year's total was $19.5 million: $12 million under U.S. Government programs and $7.5 million in commercial sales. In both years, U.S. shipments consisted largely of coarse grains and products, vegetable oils, and dried milk and cream.

In fiscal 1977, the Title I, P.L. 480 agreement between the United States and Tanzania called for delivery of 18,000 tons of rice and 31,000 tons of yellow corn and/or grain sorghum. Cost of these Commodity Credit Corporation shipments was estimated at about $7.6 million. Future corn imports will be used to help the Tanzanian Government start to build its 4-month strategic corn reserve, plans for which were announced recently.

The value of Tanzania's exports in 1976—at $480 million—was 50 percent greater than in 1975, mainly because of higher unit prices. Coffee brought in 31 percent of the total, while exports of a variety of other products accounted for the balance.

U.S. imports from Tanzania in fiscal 1976 were $26.3 million, rising in 1977 to $66.7 million, $54.6 million of the total for coffee.

Agricultural production accounts for roughly 40 percent of the country's gross national product, with 90 percent of its economically active consumers in this sector. And although half of the output of the farm sector is consumed on-farm, agriculture still provides about 80 percent of the country's exports, with coffee, cotton, cashew nuts, sisal, tobacco, tea, and pyrethrum making up their bulk. Livestock products are also exported to a smaller degree.

From 1970 through 1975, Tanzania's farm production was stagnant, rising by less than 1 percent a year. The food production segment did slightly better, increasing by 3-4 percent. But spotty as it was, this showing was better than in several other African countries, where declines occurred.

In 1976, Tanzania's total agricultural output was up, although production of some crops fell. Corn, cotton, tobacco, coffee, tea, and sugar—which was about equivalent to domestic consumption—showed rises, while sisal, cashew, and milk production was down. Food production increased somewhat faster than the 2.8 percent population growth, but the gap between output and need is still sizable.

Farm production in 1977 is believed to have risen somewhat. Additional gains are indicated in output of some food crops, including peanuts, cassava, and sugar, further helping to narrow the gap. Adequate rains fell in many of the country's major corn areas early in 1977 and, although offset later by minor droughts in nine districts, corn output is expected to exceed the 1.6 million tons of 1976.

Emphasis is being placed on production of rice, sugarcane, and vegetables from the country's 50,000 hectares of irrigated farmland. But even though various small-scale water programs are being pushed, periodic droughts remain a stumbling block to future crop increases.

Sisal is Tanzania's main estate crop. In addition, some wheat, coffee, and tea is produced on such units, but the larger share is grown by smallholders. The Government is urging estate operators and other large-scale farmers to boost output of wheat and corn, a drive sometimes hampered by shortages of machinery, spare parts, trained mechanics, and fuel. But it is in the Government's interest to advance programs that benefit estate owners since most of them are Tanzanians. Less than 1 percent of the country's total land area is taken up by estates managed by non-Tanzanians under 99-year rights of occupation.

Production rises in food and export crops are called for in Tanzania's third 5-year development plan, which also promotes growth in the industrial sector. Put into effect in July 1977 after months of delay, the development plan has a total estimated cost of almost $4 billion, 50 percent to be financed from funds received as foreign assistance. Some 15 percent of the plan's total expenditure is to be allocated to the farm sector, 27 percent to the industrial.

Farm sector growth is slated at 5.1 percent, with a total economic growth objective of raising national income by 6 percent a year. Also projected are self-sufficiency in grain production by 1985 and significant exports of sugar by 1980 through immediate expansion of three sugar plants.

Although the amount of foreign investment funds received by Tanzania has been minimal, aid inflows have

The author is an agricultural economist with the Foreign Demand and Competition Division, Economic Research Service.

been high relative to the country's population, estimated at 16.3 million in 1977. In recent years, aid was estimated at the $300-million-a-year level.

In the fiscal year beginning July 1, 1977, some 55 percent of the country's capital budget will be financed from foreign grants and loans totaling $268 million. Of this, $23.3 million will be used to further develop production of several major export crops, particularly coffee, cotton, tobacco, and pyrethrum.

The People's Republic of China has been a major source of funds in past years. Other donors include the Scandinavian countries, along with the World Bank. Over the past 3 years, U.S. assistance has totaled $90 million, and is projected to increase. U.S. aid to Tanzania has included funds for agricultural credit, and for livestock and seed multiplication programs.

One of the Government's more controversial programs is that of resettling isolated farm families into villages. The Ujamaa (familyhood) program has relocated some 75 percent of the rural population into units of about 350-400 families. Although intended to collectivize agriculture, the program has yet to evolve a satisfactory incentive system to encourage farmers to pool resources and labor, so at the moment communal farming is not insisted on. Individual smallholders are now permitted to farm privately held plots, even though the land is located within the village boundaries.

Under the Uiamaa Village Act, power to direct and control local development programs was given to elected village councils. Each village is permitted to function like a multipurpose cooperative, with the council planning and coordinating all of the village's activities, agricultural and social.

The council allocates land held in common and controls its use. The council also holds title to heavy agricultural machinery and all other capital goods except livestock and hand farm tools. These remain the property of individuals.

This expanded village responsibility is consistent with the Government's policy of decentralizing administration where possible. But central control is apparent in some of its commodity programs, an example of which is its rice purchasing plan.

About 50 percent of the paddy rice crop is sold by producers, with most of the purchases made by private traders. At the same time, however, the Government has a parallel purchasing organization—the National Milling Corporation (NMC)—which buys about 20 percent of each year's offerings. Because of the low prices offered by the NMC, most of the rice is sold illegally.

In 1976, NMC paid only about 12 cents per kilogram for paddy rice, much less than offered by private traders. When the official retail price was cut from 48 cents to 52 cents per kilogram, illegal sales caused stocks to fall markedly by early 1977.

Another example of the substantial Government role is the sizable number of Government-owned, but fairly autonomous organizations—including the Milling Corporation—which exercise strong controls over production, marketing, and processing of major crops. Expected to operate on a commercial basis, these bodies nonetheless do not pay corporate taxes, and still have access to public funds in an emergency.

The Government is also promoting a National Grain Project, financed by an $18 million line of credit from the World Bank's International Development Association. The project's aim is to increase corn output by 195,000 tons by 1982, by providing subsidized inputs to villagers in high potential corn growing areas.

Tanzania's President Nyerere has stated that the generally poor agricultural performance in recent years—including the slow rise in farmer income—has been the result of a "lack of political leadership and technical understanding at the district and village levels." But there is also the belief that restrictive Government decrees—such as that setting farm producer prices at low levels—dampen the enthusiasm of private operators and farmers to boost crop production.

Attempts are being made to improve the production picture and earlier this year the Prime Minister ordered many agricultural officials to reside in villages from Monday to Friday each week, to work directly with the farmers and their families.

Benefiting from a strong expansion program coordinated by the Ministry of Agriculture in Dar es Salaam, Tanzanian farmers also receive technical assistance from extension workers employed by organizations promoting production of a particular crop in major producing areas. About 2,500 field workers promote crop output and 800 work on animal health and husbandry projects.

Tanzanian farmers receive credit from the country's Rural Development Bank, through their cooperatives. Interest rates to cooperatives are 8½ percent on short-term loans and 7½ percent on medium- and long-term. Cooperatives can lend bank funds to farmers at the same rates. □

Venezuelans See Tobacco Shortage

Unofficial sources report that Venezuela could be faced with a tobacco shortage in the near future. Severe labor shortages, coupled with traditional tobacco area being planted to other crops such as corn, are cited as the reasons for the prediction.

Venezuela's farm sector has felt the strain of this country's sudden rise to affluence, as other more attractive industries have drained the agricultural sector of its labor force. This has caused the Government to take numerous actions in an effort to reverse this trend.

It has, for example, set minimum wages for farm workers and made credit more readily available to the sector. □

Foreign Agriculture

Vol. XVI, No. 3, January 16, 1978

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The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *Foreign Agriculture* has been approved by the Director, Office of Management and Budget, through June 30, 1979. Yearly subscription rate: $38.00 domestic, $48.00 foreign; single copies 80 cents. Order from Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. Contents of this magazine may be reprinted freely. Use of commercial and trade names does not imply approval or constitute endorsement by USDA or Foreign Agricultural Service.

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ADDITIONS TO *FOREIGN AGRICULTURE* INDEX OF DECEMBER 26, 1977

	Month/Day
AUSTRALIA	
Farm Output and Exports at New High in 1976/77	5/30
BRAZIL	
Citrus Industry Sets Record in 1976	10/10
CZECHOSLOVAKIA	
Grain Self-Sufficiency by 1980?	5/30
DAIRY	
South Korea Boosts Milk Production	10/10
ERISMAN, ALVA L.	
Far East Feed Needs to Rise with Meat Output Increase	5/30
ETHIOPIA	
War Conditions Imperil Food Supply—H. C. Treakle and L. A. Witucki	10/10
FRUITS AND VEGETABLES	
Brazil's Citrus Industry Sets Record in 1976	10/10
GRAIN	
Far East Feed Needs To Rise—A. L. Erisman	5/30
Self-Sufficiency in Czechoslovakia By 1980?	5/30
Two Good Crops Boost Burma's Rice Exports—T. H. Lederer	5/30
KARPOFF, EDWARD	
South Korea Boosts Milk Production, Despite Obstacles	10/10
KOREA, SOUTH	
Boosts Milk Production, Despite Obstacles	10/10
LEDERER, THOMAS H.	
Two Good Crops Boost Burma's Rice Exports	5/30
LIVESTOCK AND MEAT PRODUCTS	
Far East Feed Needs To Rise—A. L. Erisman	5/30
NETHERLANDS	
U.S. Boosts Share of Dutch Fats, Oils Market	10/10
OILSEEDS AND PRODUCTS	
U.S. Boosts Share of Dutch Fats, Oils Markets	10/10
PITCHER, SHACKFORD	
Syria Updating State-Run Poultry Farms	10/10
POULTRY	
A Look at Poultry Markets in the Pacific Islands—S. D. Yoder	5/30
Syria Updating State-Run Poultry Farms—S. Pitcher	10/10
SYRIA	
Doing Business in Syria: Tips for the U.S. Exporter	10/10
Updating State-Run Poultry Farms—S. Pitcher	10/10
TREAKLE, H. CHARLES	
War Conditions Imperil Ethiopia's Food Supply—with L. A. Witucki	10/10
WITUCKI, LAWRENCE A.	
War Conditions Imperil Ethiopia's Food Supply—with H. C. Treakle	10/10
YODER, STEVEN D.	
A Look at Poultry Markets in the Pacific Islands	5/30

International Meetings–February

Date	*Organization and location*
Jan. 30-Feb. 2	International Assn. of Seed Crushers, 54th Congress—Kuala Lumpur.
Jan. 30-Feb. 3	UNCTAD Intergovernmental Working Group (expert level) on Jute & Products—Geneva.
Jan. 31-Feb. 6	Economics & Social Commission for Asia and the Pacific (ESCAP), Committee for Agricultural Development—Bangkok.
February	UNCTAD Preparatory Meeting on Meat—Geneva.
Feb. 6-7	National Cotton Council of America, 40th Annual Meeting—Houston.
Feb. 6-10	Second UNCTAD Preparatory Meeting on Cotton—Geneva.
Feb. 6-10	FAO Intergovernmental Meeting on Oilseeds, Oils, and Fats—Rome.
Feb. 9-10	OECD Committee for Agriculture (ministerial level)—Paris.
Feb. 13-17	Second UNCTAD Preparatory Meeting on Oilseeds and Vegetable Oils—Geneva. □